

**Department of Legislative Services**  
Maryland General Assembly  
2004 Session

**FISCAL AND POLICY NOTE**

House Bill 1400  
Appropriations

(Harford County Delegation)

Budget and Taxation

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**Historic Preservation Commission of Harford County - McComas Institute and  
Hosanna School Loan of 1994**

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This emergency bill extends the deadline, to June 1, 2005, for the loan proceeds to be expended or encumbered for the Historic Preservation Commission of Harford County – McComas Institute and Hosanna School Loan of 1994.

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**Fiscal Summary**

**State Effect:** Extending the deadline for the expenditure or encumbrance of funds would not materially affect State finances.

**Local Effect:** None.

**Small Business Effect:** None.

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**Analysis**

**Current Law:** Chapter 329 of 1994 authorized a grant of up to \$200,000 to the Historic Preservation Commission of Harford County, as grantee, for the stabilization, restoration, renovation, construction, replacement, and repair of the utility systems of the McComas Institute and of the Freeman’s School known as the Hosanna School.

Chapter 153 of 2003 established a seven-year limitation on the authority to spend an appropriation for a capital expenditure and a seven-year limitation on the authorization for State debt.

**Background:** Under the Internal Revenue Code, an entity that sells tax-exempt bonds must spend down the proceeds within 18 to 24 months, depending on the project. The law prohibits entities that sell tax-exempt bonds from earning arbitrage, by which an entity earns a higher rate of interest from the investment of bond proceeds than the interest paid on the bonds. The accumulation of unexpended bond proceeds for projects over seven years old has resulted in the State earning arbitrage interest on the bond proceeds and becoming subject to a federal tax rebate liability. Chapter 153 was enacted to help prevent the State from incurring this liability in the future.

The entire amount of the project expense must be encumbered or expended before the State's funds are released. To date, approximately \$156,000 has been expended and released. The most recent disbursement was made in April 1999 for approximately \$9,100. Under Chapter 153, approximately \$44,000 in State funds, which has been encumbered, cannot be released as it is no longer available to the grantee.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Harford County, Department of Budget and Management, Comptroller's Office, Department of Legislative Services

**Fiscal Note History:** First Reader - March 11, 2004  
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